

The International Investment Position of the United States: Developments in 1981

THE net international investment position of the United States increased \$38.7 billion in 1981, the third consecutive large increase (table 1). As in 1980, there was a substantial expansion in bank-reported net claims on foreigners, particularly in the Eurodollar market. The net direct investment position declined for the first time in the post-World War II period. An unusually large increase in foreign direct investment in the United States exceeded an unusually small increase in U.S. direct investment abroad.

U.S. bank claims on foreigners, especially with own foreign offices, reflected increased activity in the Eurodollar markets. Also, bank-reported customer claims were up significantly. U.S. bank liabilities to foreigners increased largely in accounts due own foreign offices, particularly in the second and third quarters when inter-bank borrowing costs in the United States were much higher than those abroad. Both bank-reported claims and liabilities were boosted by the establishment of International Banking Facilities (IBF's) in the United States near yearend, and the related transfer of claims and liabilities from abroad.¹ Direct investment flows reflected a record increase in foreign direct investment in the United States. Some unusually large foreign acquisitions and stepped-up use of foreign parents' funds contributed to the inflows. The increase in U.S. direct investment abroad slowed markedly, partly due to U.S. parents' heavy borrowing of affiliates' funds and a business slowdown abroad.

The net U.S. international investment position was \$160.8 billion at yearend 1981. U.S. assets abroad increased \$110.6 billion to \$717.4 billion, almost entirely due to capital flows (tables 2 and 3). Foreign assets in the United States increased \$71.9 billion to \$557.1 billion; capital flows more than accounted for the increase, and were partly offset by a large downward valuation adjustment to foreign holdings of U.S. corporate securities.

Relationship of capital flows to the current account

In terms of accounting entries, the net capital flow component of the U.S. international investment position is the mirror image of the balance on current account in U.S. international transactions, plus the allocation of special drawing rights (SDR's)

by the International Monetary Fund (IMF), and an entry for the statistical discrepancy in the accounts. However, because capital flows and current-account transactions are simultaneously determined and interact through exchange rates and other factors, there is no simple cause and effect relationship between them.

The large 1981 increase in the net investment position occurred although there was only a moderate rise in the U.S. current-account surplus. In fact, over the past 3 years, the net international investment position increased \$84.1 billion, although the current account had a cumulative surplus of only \$5.5 billion. This anomaly may be explained by the large cumulative statistical discrepancy—almost \$80 billion—during the same period that probably was in

Table 1.—Summary of Changes in the Net International Investment Position of the United States
(Millions of dollars)

(-) Decrease in U.S. assets or increase in foreign assets	Line	1977*	1978*	1979*	1980*	1981*
Change in net international investment position (lines 9+12).....	1	-10,117	3,339	18,683	26,976	38,700
Official holdings:						
U.S. reserve assets.....	2	565	-682	308	7,900	3,319
Foreign official assets.....	3	-36,555	-32,176	13,078	-16,153	-4,285
Other U.S. Government assets.....	4	3,507	4,856	4,218	5,083	5,814
Private, U.S. bank-reported, net.....	5	4,547	19,371	-11,804	34,191	43,689
Other private, net:						
Direct investment.....	6	5,356	8,261	13,140	13,301	-9,644
Long-term securities.....	7	8,960	1,826	-1,817	-9,845	-712
Other.....	8	3,453	1,642	1,092	-8,241	1,258
International transactions capital flows, net.....	9	-18,333	-2,907	26,885	31,542	31,379
U.S. assets abroad.....	10	34,785	61,130	64,344	86,026	109,234
Foreign assets in the United States.....	11	-51,819	-64,836	-35,483	-54,484	-77,921
Valuation and other adjustments, net.....	12	6,416	6,216	-7,202	-4,987	7,327
U.S. assets abroad.....	13	-2,884	7,414	-1,418	18,251	1,384
Foreign assets in the United States.....	14	9,260	-1,199	-5,784	-15,118	6,083
Net international investment position of the United States at end of period.....	15	72,688	76,238	86,903	121,584	160,284
Memoranda:						
International transactions capital flows, net (line 9 above) equals:						
Balance on current account (deficit (-)).....	16	-14,088	-14,773	-466	1,520	4,471
Allocation of special drawing rights.....	17			1,139	1,152	1,088
Statistical discrepancy (unrecorded outflows (-)).....	18	-2,465	11,906	25,212	28,870	26,909

* Preliminary. * Revised.

NOTE.—Harlan King and Helen Lewis contributed to the preparation of this article.

1. For a brief description of IBF's, see "U.S. International Transactions, Fourth Quarter and Year 1981," 62 SURVEY OF CURRENT BUSINESS (March 1982): 44.

large part accounted for by unrecorded capital inflows. If these inflows had been recorded, the increase in the net investment position would have been correspondingly smaller. Therefore, the net investment position is only a rough indicator of the international balance sheet of the United States at the end of any given period.

Changes in U.S. Assets Abroad

Bank claims

Claims on foreigners reported by U.S. banks increased \$89.7 billion, or 44 percent, to \$293.5 billion in 1981 (tables 2 and 3). Capital outflows—augmented by the establishment of IBF's, continued strong interbank lending, and record customer purchases of Eurodollar certificates of deposit (CD's)—accounted for \$84.5 billion of the total. A \$5.1 billion increase was due to expanded reporting coverage. Almost one-half the year's increase occurred in the fourth quarter; more than 60 percent of that increase reflected the December establishment of IBF's.

Nearly all of the IBF activity represented transfers of existing balances from domestic and foreign offices' books. Transfers from U.S. offices did not change outstanding international assets or liabilities because their U.S. residence remained unchanged. About \$26.0 billion in claims on foreigners were transferred from the books of foreign offices, primarily of U.S.-owned banks, as residence shifted to the U.S. IBF. By yearend, IBF claims amounted to \$62.5 billion (table 4).

Excluding the transfers from foreign offices to IBF's, bank-reported outflows were \$58.5 billion. Banks' own claims increased \$48.3 billion; claims of U.S.-owned banks on foreign affiliated banks accounted for over 50 percent of the increase. This interbank lending reflected high and volatile U.S. interest rates, and at times, large differentials between the (higher) U.S. prime and (lower) London Interbank Offered (Libor) borrowing rates. These differentials encouraged the booking of loans abroad, by both U.S.-owned and foreign-owned banks, especially in the first and fourth quarters.

U.S. bank-reported claims on unaffiliated foreign banks also increased strongly; the increase in claims on

nonbank foreigners slowed slightly, due to the influence of a strong dollar and high U.S. borrowing costs. An exception was a large increase in claims on Mexico.

Bank-reported customer claims increased \$10.2 billion, largely reflecting purchases for U.S. money market mutual funds of high-yield Eurodollar CD's issued by U.S. banking offices in the United Kingdom.

Foreign securities

Holdings of foreign securities by U.S. residents increased \$0.5 billion to \$62.9 billion. Although there was a near record total of new foreign bond issues, price declines in both foreign bond and stock markets held the increase in these investments to less than 1 percent, the smallest increase since 1973.

U.S. residents' holdings of foreign bonds increased \$2.3 billion to \$45.8 billion; \$8.1 billion in new bond placements was offset by \$2.6 billion in redemptions and other sales, and a \$3.2 billion negative adjustment reflecting a decline in bond prices. Large bond placements by Canadian provincial and hydro-electric authorities resulted in a 9-percent increase in U.S. holdings to \$26.5 billion. Western European placements of \$0.8 billion were offset by price declines, so that U.S. holdings were unchanged at \$7.7 billion. There were \$1.1 billion of placements by the World Bank, the first in the U.S. market since 1977.

U.S. residents' holdings of foreign stocks decreased \$1.8 billion, reflecting a decline in market prices. Declining business activity abroad and depreciating foreign currencies discouraged purchases by U.S. investors. A 14-percent decline in Canadian stock prices contributed to a 19-percent decline in U.S. holdings to \$9.6 billion. Small purchases of Western European stocks in the first half of the year were offset by price declines in the second half; only Japanese securities increased in price and in the value of holdings.

U.S. direct investment abroad and other private assets

U.S. direct investment abroad increased \$11.8 billion to \$227.3 billion—far less than the increases in 1978-80, when business activity

abroad was, in general, expanding and earnings of petroleum companies were enhanced by rising petroleum prices. Economic slowdown in Western Europe curtailed investment in 1981. In addition, because borrowing costs in Europe were substantially lower than in the United States, many U.S. companies borrowed from their foreign affiliates, thus reducing U.S. assets abroad. U.S. company borrowing via Netherlands Antillean finance affiliates' debt issues accelerated in 1981. Much of this borrowing, the proceeds of which were largely repatriated to the parent, was in the form of medium-term notes, some with convertible features and floating rates, and guaranteed by the parent company.² Other capital inflows (reducing assets abroad) reflected increased intercompany accounts payable, especially in the automotive industry. Also, there were reduced parent equity contributions to foreign affiliates, and sales of Canadian and other affiliates. The capital gains on sale of the Canadian (primarily petroleum) affiliates contributed to a positive valuation adjustment.³

Other claims on foreigners reported by nonbanking concerns—largely offshore bank deposits, trade receivables, and short-term balances with unaffiliated foreigners—were unchanged at \$35.0 billion.

U.S. official reserve assets and other U.S. Government assets

U.S. official reserve assets increased \$3.3 billion to \$30.1 billion, despite a \$1.9 billion decline in value as a result of the dollar's appreciation. The U.S. reserve position with the IMF nearly doubled to \$5.1 billion, reflecting increased use of dollars in Fund operations. A number of non-OPEC developing countries, facing external payments imbalances, relied heavily on IMF facilities in 1981. Holdings of SDR's increased \$1.5 billion, reflecting sales by foreign countries of SDR's to the United States for U.S. dollars and \$1.1 billion from the last of three annual allocations authorized in 1978.

(Text continued on p. 46)

2. For details, see "U.S. International Transactions, First Quarter 1981," 61 Survey (June 1981).

3. For details, see "U.S. Direct Investment Abroad in 1981" in this issue.

Table 2.—Changes in the Net International Investment Position of the United States Reconciled With International Transactions Capital Flows

(Millions of dollars)

Lines in table 3	Changes in net international investment position of the United States and U.S. assets abroad	1980 ¹	1981 ²	Lines in table 3	Foreign assets in the United States	1980 ³	1981 ⁴
	Item (decrease (-))				Item (decrease (-))		
1	Changes in net international investment position of the United States	26,676	36,700				
	International transactions capital flows, net	31,642	31,373				
	Other changes, net	-4,967	7,327				
2	U.S. assets abroad	94,217	116,584	24	Foreign assets in the United States	69,486	71,663
	Capital flows	86,626	108,294		Capital flows	54,484	77,821
	Other changes	18,251	1,254		Other changes	15,118	-6,062
3	U.S. official reserve assets	7,889	3,359	25	Foreign official assets in the United States	18,153	4,245
	Capital flows	8,155	5,175		Capital flows	15,442	4,785
	Other changes	-355	-1,806		Other changes	711	-589
4	Gold	-12	-9	26	U.S. Government securities	11,549	5,888
	Capital flows	-12	-9		Capital flows	11,549	5,888
	Public sales ¹	-12	-9	27	U.S. Treasury securities	5,588	5,831
	Valuation adjustment	-	(*)		Capital flows	1,706	4,853
5	Special drawing rights	-114	1,485		Price changes	-131	654
	Capital flows	16	1,824		Statistical discrepancy	1	-9
	Exchange rate adjustments ²	-130	-339	28	Other	1,361	1,257
6	Reserve position in the International Monetary Fund	1,599	2,282		Capital flows	2,187	1,289
	Capital flows	1,687	2,481		Price changes	-226	-32
	Exchange rate adjustments ²	-88	-288	29	Other U.S. Government liabilities ³	661	-51
7	Foreign currencies	5,327	-860		Capital flows	661	-51
	Capital flows	5,472	861		Statistical discrepancy	-	18
	Exchange rate adjustments ²	-145	-1,221	30	U.S. liabilities reported by U.S. banks, not included elsewhere	-158	-4,975
8	U.S. Government assets, other than official reserve assets	5,493	5,914		Capital flows	-158	-4,983
	Capital flows	5,126	5,137		Change in coverage and statistical discrepancy	-	8
	Other changes	-33	-123	31	Other foreign official assets	4,262	1,443
9-11	U.S. loans and other long-term assets, less repayments	5,338	5,346		Capital flows	3,145	2,586
	Capital flows	5,395	5,340		Price changes	1,057	-1,222
	Exchange rate adjustments ²	-57	-6	32	Other foreign assets in the United States	53,445	57,563
	Change in coverage	14	-		Capital flows	39,043	73,138
	Statistical discrepancy and other adjustments	-4	12		Other changes	14,402	-5,493
12	U.S. foreign currency holdings and U.S. short-term assets	-244	-332	33	Direct investments in the United States	13,889	21,408
	Capital flows	-289	-284		Capital flows	13,688	21,301
	Exchange rate adjustments ²	14	-128		Equity and intercompany accounts	7,500	17,301
	Statistical discrepancy and other adjustments	10	-		Reinvested earnings of incorporated affiliates	5,168	4,089
13	U.S. private assets	87,364	101,225		Valuation adjustment	223	101
	Capital flows	72,746	95,362	34	U.S. securities other than U.S. Treasury securities	16,527	1,176
	Other changes	10,638	3,243	35	Corporate and other bonds	-724	1,182
14	Direct investments abroad	27,120	11,165		Capital flows	1,235	2,117
	Capital flows	19,238	8,691		Price changes	-1,949	-105
	Equity and intercompany accounts	2,221	-4,297	36	Corporate stocks	16,251	-7
	Reinvested earnings of incorporated affiliates	17,417	12,978		Capital flows	4,282	4,933
	Valuation adjustment	5,482	3,974		Price changes	12,019	-5,000
15	Foreign securities	5,692	408	37-39	U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns, long- and short-term ³	11,387	-927
16	Foreign bonds	1,521	2,250		Capital flows	6,530	539
	Capital flows	1,202	5,439		Change in coverage and other adjustments	4,857	-1,469
	Price changes	301	-3,201	40	U.S. long-term liabilities reported by U.S. banks	(*)	(*)
	Exchange rate adjustments ²	16	68	41	U.S. Treasury securities and other short-term liabilities reported by U.S. banks	12,646	45,997
17	Foreign corporate stocks	4,103	-1,827		U.S. Treasury securities	1,993	2,906
	Capital flows	2,322	-4		Capital flows	2,645	2,932
	Price changes	3,168	-1,756	42	Exchange rate adjustments ²	-825	-737
	Exchange rate adjustments ²	-328	-97		Price changes	87	139
18-20	U.S. claims on unaffiliated foreigners reported by U.S. nonbanking concerns, long- and short-term ³	3,146	331		Statistical discrepancy	-	62
	Capital flows	3,146	331	43	U.S. short-term liabilities reported by U.S. banks, not included elsewhere ³	10,743	43,601
21-23	U.S. claims reported by U.S. banks, not included elsewhere, long- and short-term ³	48,837	88,584		Capital flows	10,743	41,262
	Capital flows	48,838	84,531		Change in coverage and statistical discrepancy	-	2,339
	Change in coverage and statistical discrepancy	-1	5,135				

¹ Preliminary.² Revised.³ Reflects sales to the public from U.S. Treasury gold stocks; these demonstrations are not included in the international transactions presentation.⁴ Represents gains or losses on foreign currency denominated assets and liabilities due to their revaluation at current exchange rates.⁵ Maturity breakdown has been discontinued. Lines 40 and 43 are combined.⁶ See table 3, footnote 8.

Table 3.—International Investment Position of the United States at Yearend¹

(Million of dollars)

Type of investment	Line	Total					Western Europe		Canada		Japan		Latin American Republics and other Western Hemisphere		Other foreign countries		International organizations and unallocated	
		1977	1978	1979	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981
Net international investment position of the United States	1	72,888	74,228	84,900	121,534	144,384	-55,463	-49,929	61,318	85,838	2,472	1,248	57,839	102,388	85,611	15,519	21,733	25,139
U.S. assets abroad	2	379,124	447,868	519,831	608,872	717,431	175,713	202,572	96,894	104,684	37,380	44,879	193,065	208,949	167,684	125,366	28,117	33,297
U.S. official reserve assets	3	19,312	18,650	18,958	26,766	30,074	7,992	7,707	(*)	(*)	2,142	2,806					18,639	20,389
Gold	4	11,719	11,671	11,772	11,360	11,151											11,169	11,151
Special drawing rights	5	2,829	1,588	2,724	2,610	4,096											2,510	4,096
Reserve position in the International Monetary Fund	6	4,945	1,047	1,358	2,862	5,054											2,852	5,054
Foreign currencies	7	18	4,374	3,907	10,124	9,774	7,882	7,707	(*)	(*)	2,142	2,806						
U.S. Government assets, other than official reserve assets	8	48,585	54,321	58,439	83,828	88,547	10,825	10,854	344	291	373	642	11,816	18,286	25,069	38,782	4,877	5,703
U.S. loans and other long-term assets ²	9	47,779	52,878	56,514	81,888	87,196	10,391	10,608	344	291	373	642	11,780	18,150	25,032	37,724	4,872	5,696
Repayable in dollars	10	45,179	49,885	54,133	80,614	84,922	10,061	10,192	344	291	373	642	11,271	11,882	22,523	36,338	4,972	5,696
Other ³	11	2,581	2,438	2,892	2,293	8,276	440	416					509	474	1,289	1,386		
U.S. foreign currency holdings and U.S. short-term assets	12	1,795	1,948	1,935	1,899	1,349	324	349	(*)	(*)	19	20	26	59	1,286	1,025	5	5
U.S. private assets	13	310,247	374,997	433,200	516,984	615,810	158,890	184,011	96,550	104,256	34,545	41,962	149,189	184,734	72,786	86,634	6,618	7,204
Direct investments abroad	14	145,900	182,727	207,858	275,578	327,342	85,899	98,785	44,978	46,967	6,240	6,907	38,582	58,583	36,471	41,838	3,906	4,122
Foreign securities	15	49,439	53,284	55,800	62,482	62,945	13,561	13,503	34,281	36,099	2,847	2,904	1,561	1,491	5,539	5,897	2,673	3,081
Bonds	16	29,829	32,148	31,965	43,487	45,777	7,938	7,399	24,413	25,521	1,889	1,696	1,221	1,102	6,353	5,651	2,673	3,081
Corporate stocks	17	10,110	11,296	14,834	18,995	17,168	5,723	5,777	11,789	9,878	948	*1,206	340	389	186	219		
U.S. claims on unaffiliated foreigners reported by U.S. nonbanking concerns	18	22,258																
Long-term	19	6,935	*28,070	*81,513	*34,658	*34,981	11,459	9,776	6,142	7,509	1,223	1,595	11,477	11,716	4,301	4,719		
Short-term	20	16,323																
U.S. claims reported by U.S. banks, not included elsewhere	21	82,583																
Long-term	22	12,649																
Short-term	23	79,933	*120,515	*157,029	*208,856	*233,532	46,677	71,947	9,225	14,063	24,232	30,973	77,249	142,543	26,419	34,216	40	1
Foreign assets in the United States	24	346,235	371,642	495,494	485,298	567,147	244,302	253,591	35,678	35,720	34,788	43,424	74,066	104,572	91,273	109,570	6,384	8,058
Foreign official assets in the United States	25	148,786	172,968	159,491	175,844	199,050	83,908	68,684	1,785	2,551			5,739	7,089				14
U.S. Government securities	26	106,889	128,611	106,508	118,189	125,079												
U.S. Treasury securities	27	101,092	123,931	101,748	117,836	116,968	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
Other	28	4,294	4,830	4,892	6,893	8,110												
Other U.S. Government liabilities ⁴	29	10,185	12,061	12,888	13,149	18,086	2,666	2,496	218	170	2,218	2,289	178	268	7,580	7,950		14
U.S. liabilities reported by U.S. banks not included elsewhere	30	18,004	23,327	30,540	30,851	35,268												
Other foreign official assets	31	7,217	8,470	9,929	14,125	15,968	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
Other foreign assets in the United States	32	106,443	106,678	205,995	309,444	377,097	161,296	184,917	33,811	36,158	12,212	4,225	67,327	37,480			6,384	8,044
Direct investments in the United States	33	34,595	42,473	54,462	68,351	69,759	45,731	67,703	10,074	12,212			5,950	5,362	1,332	4,583		
U.S. securities other than U.S. Treasury securities	34	51,235	53,554	68,987	74,114	75,599	51,672	52,830	12,832	12,846	1,333	1,504	4,822	4,538	2,974	3,053	781	190
Corporate and other bonds	35	11,458	11,457	10,289	9,545	10,737	6,996	7,913	1,196	975	446	515	379	437	481	531	253	300
Corporate stocks	36	39,779	42,097	48,698	64,569	64,862	44,786	44,917	11,632	11,631	888	929	4,452	4,091	2,513	2,545	518	490
U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns	37	11,867																
Long-term	38	5,317	*16,019	*18,410	*29,797	*29,870	11,345	11,119	1,992	2,114	1,484	1,645	4,889	4,530	10,287	9,471		
Short-term	39	6,550																
U.S. long-term liabilities reported by U.S. banks	40	1,485	(*)	(*)	(*)	(*)												
U.S. Treasury securities and other short-term liabilities reported by U.S. banks	41	68,551	88,653	124,036	187,182	188,178	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
U.S. Treasury securities	42	7,682	*8,918	*14,210	*16,113	*18,508												
U.S. short-term liabilities reported by U.S. banks, not included elsewhere	43	58,869	*77,719	*110,326	*171,069	*169,670												

² Includes U.S. gold stock.³ Less than \$500,000 (x).⁴ Data for 1977-80 are revised; data for 1981 are preliminary.⁵ Also includes paid-in capital subscription to international financial institutions and outstanding accounts of miscellaneous claims that have been settled through international agreements to be payable to the U.S. Government over periods in excess of 1 year. Excludes World War I debts that are not being serviced.⁶ Includes indebtedness that the borrower may contractually, or at its option, repay with its currency, with a third country's currency, or by delivery of materials or transfer of services.⁷ For the most part, represents the estimated investment in shipping companies registered primarily in Honduras, Panama, and Liberia, and in U.S. affiliated multinational trading companies, finance and insurance companies, not designated by country.⁸ U.S. holdings of Japanese shares may be underestimated. This is in part due to the recording of security transactions by the country of transactor rather than the country of issuer.⁹ Maturity breakdowns in not available.¹⁰ Details not shown separately are included in totals in lines 25 and 32.¹¹ Details not shown separately are included in line 24.¹² Primarily includes U.S. Government liabilities associated with military sales contracts and other transactions arranged with or through foreign official agencies.¹³ Maturity breakdown is not available; see line 43.¹⁴ Includes U.S. Treasury notes deposited in foreign currencies sold through foreign central banks to domestic residents in country of issue; these notes are subject to restricted transferability.

Foreign currency holdings increased in the first quarter, but steadied thereafter, as U.S. authorities refrained from intervention in exchange markets. In the second half of 1981, the equivalent of \$1.9 billion of U.S. Treasury foreign-currency-denominated notes matured. The resulting \$0.9 billion net increase in foreign currency holding was more than offset by a decline in the value of these holdings.

Other Government assets increased \$5.0 billion, about the same as in 1980, to \$68.5 billion. An increase in capital subscriptions to international financial institutions was offset by a decline in Export-Import bank lending.

Changes in Foreign Assets in the United States

Foreign official assets in the United States

Foreign official assets in the United States increased \$4.2 billion in 1981 to \$180.1 billion. An increase in official holdings of OPEC members in the Middle East and of several non-OPEC developing countries more than offset a decrease in holdings of Western European countries, as they supported their currencies in exchange markets.

Although the investible surplus of OPEC members declined to about \$60 billion in 1981 from \$110 billion in 1980 due to lower petroleum receipts, official dollar assets placed in the United States were about the same in both years—\$12-13 billion. High interest rates and a strong dollar contributed to the increase in the share of assets placed in the United States by OPEC members, to 19 from 11 percent. As in 1980, longer term investments, especially marketable Treasury bonds, were preferred. Smaller amounts were placed in Federal agency and corporate bonds and stocks. Nearly all of the 1981 increase was attributable to Saudi Arabia, Kuwait, and the United Arab Emirates. By the second half of 1981, OPEC members as a group became net borrowers in the Eurocurrency markets.

Official dollar assets of non-OPEC developing countries also increased. Several countries in Latin America and Asia, especially Mexico, Singapore, and Malaysia, replenished their

Table 4.—U.S. Bank-Reported Claims and Liabilities, Including International Banking Facilities*

	Amounts outstanding at yearend 1981		Amounts outstanding at yearend 1980			
	Claims	Liabilities	IBFs		All U.S. offices, including IBFs	
			Claims	Liabilities	Claims	Liabilities
Bank-reported (table 3, lines 21 and 41).....	263.9	121.1	62.5	45.8	393.5	164.7
Own accounts, payable in dollars.....	172.6	107.8	61.3	48.1	250.1	145.8
U.S.-owned banks with foreigners.....	58.1	48.9	21.6	16.0	147.4	77.0
Own foreign offices.....	27.6	22.2	9.9	15.3	58.5	44.1
Unaffiliated banks.....	28.7	14.8	8.6	2.5	49.5	15.9
Others.....	26.8	12.5	16.1	1.2	39.2	17.1
Foreign-owned banks with foreigners.....	79.5	58.1	39.7	34.1	102.7	68.8
Own foreign offices.....	27.5	48.6	5.1	15.0	38.8	62.5
Unaffiliated banks.....	21.5	7.6	12.7	8.4	23.8	11.1
Others.....	30.5	4.0	21.9	.7	40.8	6.2
Customer accounts, payable in dollars.....	26.1	10.4			37.3	15.2
Payable in foreign currency.....	5.2	3.7	1.2	.7	6.1	3.7
Bank-reported (table 3, line 39).....		30.4		3.3		26.3
Own accounts, payable in dollars.....		19.8		2.3		18.7
Customer accounts, payable in dollars.....		12.6				9.6

*Excludes foreign holdings of U.S. Treasury obligations.

dollar holdings of short-term U.S. Treasury obligations and bank deposits.

Industrial countries sharply reduced their dollar assets, using the funds to intervene in support of their currencies in exchange markets. Much of the \$12.2 billion decrease, mainly in Treasury securities and short-term bank deposits, occurred in the second and third quarters, when U.S. interest rates surged and the dollar strengthened. In addition, dollars were used to limit movements among European Monetary System currencies. France, the United Kingdom, and Germany incurred the largest reductions. Canada, which borrowed heavily in Eurocurrency markets, and Japan, with its improved payments position, increased their official dollar assets in the United States.

Other foreign assets

U.S. liabilities to private foreigners and international financial institutions reported by U.S. banks increased \$48.6 billion. Of that, a \$2.3 billion increase was due to expanded reporting coverage. About one-half of the \$41.3 billion in capital inflows occurred in the fourth quarter, reflecting the establishment of IBFs. Liabilities transferred from foreign offices were \$28.8 billion; transfers from domestic offices, as with claims, did not change residence or the U.S. investment position.

Other increases in U.S. bank-reported liabilities were \$12.5 billion, up moderately from 1980. U.S. banks, facing accelerated domestic and foreign loan demand and tight credit conditions, borrowed heavily from their own foreign offices, especially in the second and third quarters. Borrowing from offices in the United Kingdom, Switzerland, and the Caribbean accounted for 80 percent of total bank-reported inflows in 1981, compared with 50 percent in 1980. Own foreign offices attracted both foreign and U.S. deposits due to high Eurodollar deposit rates. The remaining 20 percent of inflows was largely accounted for by deposits of nonbank residents in Hong Kong, Switzerland, and some capital flight from Mexico, prior to devaluation of the peso. At year end 1981, bank-reported liabilities were \$164.7 billion, including \$47.1 billion of IBF liabilities (table 4).

Foreign holdings of U.S. Treasury securities, excluding official holdings, increased \$2.4 billion to \$18.5 billion. The equivalent of \$1.9 billion of foreign currency notes issued to Swiss and German residents a few years ago, were redeemed. Purchases by Western Europe and the World Bank accounted for a net increase in foreign holdings of dollar-denominated Treasury marketable securities.

Foreign holdings of U.S. securities other than Treasury securities increased only \$1.2 billion to \$75.3 billion at yearend; price declines of both

stocks and bonds in the second half of the year nearly offset substantial acquisitions in the first half. With stock prices and the exchange value of the dollar appreciating during the first half, foreigners purchased a record \$4.6 billion in U.S. stocks. However, the second-half decline in stock prices and in the dollar deferred further net purchases and reduced the value of foreign stock holdings by \$5.0 billion, so that the amount outstanding, at \$64.6 billion, was virtually unchanged from 1980.

Western European stock holdings increased slightly to \$44.9 billion. Since October 1979, when British exchange controls were eliminated, British holdings have increased \$9.3 billion to \$14.7 billion. Canadian and Japanese holdings of \$11.6 billion and \$0.9 billion, respectively, remained unchanged in 1981, as net purchases were offset by price declines. Foreign holdings were small relative to the total value of outstanding U.S. stocks; they accounted for about 5 percent of the value of shares listed on the New York Stock Exchange for the past several years.

Foreign holdings of U.S. corporate and other bonds increased \$1.2 billion to \$10.7 billion. There were net purchases of \$2.1 billion, partly offset by a price decline of \$0.9 billion. High yields, combined with demand for dollar-denominated assets, contribut-

ed to strong foreign demand for U.S. bonds. To a large extent, this demand was met by U.S. corporate bond placements through their Netherlands Antillean finance affiliates (discussed under U.S. direct investment abroad).

Foreign direct investment in the United States increased a record 31 percent, continuing the pattern of rapid growth that began in 1978. The 1981 increase reflected a few very large acquisitions, the high cost of borrowed funds in the United States, and U.S. affiliates' stepped-up need for funds as their U.S. earnings decreased. Foreign investors' interest was partly sustained by the political stability of the United States, in contrast to unsettled conditions abroad. Foreign investments were spread over a number of U.S. industries including petroleum, finance, construction, real estate, and selected areas of manufacturing.

The \$21.4 billion increase in foreign direct investment to \$89.8 billion, occurred despite a reduction in reinvested earnings. Three large foreign acquisitions—a Kuwaiti purchase of U.S. resource development firm, a British purchase of a large U.S. bank, and a French acquisition of a U.S. mining company—accounted for more than one-fourth of the increase. Other smaller foreign equity and intercompany account inflows were also strong. U.S. affiliates drew on foreign

parents' funds by increasing intercompany payables due to their parents, while their receivable position remained virtually unchanged.⁴

Liabilities to foreigners reported by U.S. nonbanking concerns decreased \$0.9 billion to \$28.9 billion. A downward valuation adjustment of \$1.4 billion more than offset \$0.5 billion in capital inflows. Despite reports of strong borrowing in the Eurocredit markets and an estimated \$47 billion in Eurocredits arranged by U.S. companies—mainly as backup credit lines associated with large takeover bids—reported liabilities increased only slightly. The small increase partly reflects the fact that only a small portion of the backup credit lines were drawn. Also, there may have been reporting problems associated with U.S. nonbank borrowings abroad, and with the repatriation of these borrowed funds; such problems could have been a contributing factor to the large statistical discrepancy in the U.S. international accounts, reflecting an understatement of such liabilities. Coverage in nonbank liabilities has been expanded to include estimates of foreign traders' positions in U.S. commodity futures trading. The amounts are relatively small and are included from 1977 to the present.

4. For details, see "Foreign Direct Investment in the United States in 1981," in this issue.